

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01

INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05 CEA-01

PA-02 PRS-01 /096 W

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R 131455Z SEP 77

FM AMEMBASSY ROME

TO SECSTATE WASHDC 7121

TREASURY DEPT WASHDC

INFO AMEMBASSY BRUSSELS

AMEMBASSY PARIS

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FOR USEC; USOECD

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJ: TURIN DAILY ASSERTS SOME CEILINGS OF LETTER OF INTENT
BEING RENEGOTIATED

REF : ROME A-288

1. /SUMMARY/. TURIN DAILY /LA STAMPA/ CLAIMED IN SEPTEMBER
9 EDITION THAT GOI HAD REOPENED NEGOTIATIONS WITH THE IMF
FOR MODIFICATION OF SOME CEILINGS, PARTICULARLY THE CEILING
ON 1978 PUBLIC SECTOR EXPENDITURES. WHILE THE GOVERNMENT DID
NOT DENY CONTACT WITH THE IMF AUTHORITIES, MINTREAS STAMMATI
AFFIRMED THAT ITALY HAD EVERY INTENTION OF MEETING THE TARGETS
IT HAD AGREED TO, AND PRIMIN ANDREOTTI, IN OPENING ADDRESS AT
THE IMPORTANT BARI FAIR, REITERATED THE COMMITMENT MADE, NOT
JUST BY HIS GOVERNMENT, TO MEET THESE INTERNATIONAL OBLIGATIONS.
/END SUMMARY/.

2. DEBATE ON POSSIBLE RENEGOTIATION OF LETTER OF INTENT
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WAS OPENED SEPTEMBER 9 BY TURIN DAILY LA STAMPA WHICH
ALLEGEDLY HAD ACCESS TO DRAFT 1978 BUDGET FORECAST AND
ECONOMIC PLANNING AND FORECAST REPORT WHICH MUST BE PRESENTED
TO PARLIAMENT BY THE END OF SEPTEMBER. FORECAST FOR 1978
APPROPRIATIONS ACCORDING TO /LA STAMPA/ ARTICLE WILL EXCEED
BY GOODLY MARGIN THE 7 PERCENT INCREASE OVER 1977 EXPENDITURES
AGREED TO AS A LIMIT IN THE "LETTER OF INTENT." ACCORDINGLY,

THE GOVERNMENT HAD ALLEGEDLY APPROACHED THE IMF TO CHANGE THE BASE USED TO CALCULATE THE 7 PERCENT INCREMENT-CITED IN THE LETTER OF INTENT. /LA STAMPA/ ARTICLE CITED FORECAST EXPENDITURE FIGURE TO BE IN THE RANGE OF 60-61 BILLION LIRE. THE ARTICLE CITES A PLETHORA OF FIGURES ALLEGEDLY REPRESENTING THE OLD BASE AND A PRESUMABLY REVISED NEW BASE, NONE OF WHICH RELATE TO PREVIOUSLY PUBLISHED OFFICIAL FIGURES. WHILE IT IS NOT PRESENTLY CLEAR WHAT THE FINAL BASE FIGURE WILL BE, IT MUST BE CALCULATED FROM THE APPROPRIATION BUDGET FIGURE APPROVED BY PARLIAMENT IN DECEMBER 1976 AND MODIFIED BY SUBSEQUENT PARLIAMENTARY MEASURES. SOME PRESS REPORTS AND OTHER OBSERVERS ERRONEOUSLY CITE THE FORECAST CASH EXPENDITURES OF THE PUBLIC SECTOR (56,050 BILLION LIRE IN THE JULY FORECAST SENT TO PARLIAMENT) AS BEING THE APPROPRIATE BASE FROM WHICH TO CALCULATE THE 7 PERCENT INCREMENT.

3. /LA STAMPA/ FURTHER ALLEGED THAT THE CEILING FOR THE ENLARGED DEFICIT (NET TREASURY DEFICIT PLUS THE DEFICITS OF THE HEALTH, INCLUDING HOSPITALS, SOCIAL SECURITY AND ELECTRICAL POWER AGENCIES) WOULD EXCEED THE 1978 CEILING OF 14,450 BILLION LIRE BY ABOUT 5,500 BILLION LIRE. ACCORDING TO /LA STAMPA/, IN ORDER TO REDUCE THIS DEFICIT, MINTREAS STAMMATI HAS REQUESTED A NEW CLAUSE IN THE LETTER OF INTENT SIMILAR TO THE ONE INCLUDED IN THE UK'S LETTER OF INTENT WHICH WOULD EXCLUDE THE INTEREST BURDEN BORNE BY THE TREASURY ON THE PUBLIC DEBT FROM CALCULATION OF THE EXTRA-BUDGETARY TREASURY UNCLASSIFIED

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OPERATIONS. THIS WOULD REDUCE THE DEFICIT BY ABOUT 1,000 BILLION LIRE.

4. IN APPARENT RESPONSE TO THE /LA STAMPA/ STORY, THE ITALIAN WIRE SERVICE, ANSA, RAN THE FOLLOWING NON-ATTRIBUTED STATEMENT: "THE ITALIAN GOVERNMENT DOES NOT INTEND TO RENEGOTIATE WITH THE INTERNATIONAL MONETARY FUND THE CLAUSES OF THE LETTER OF INTENT RELATIVE TO THE EXPANSION OF PUBLIC SECTOR EXPENDITURES IN 1978, NOR THOSE RELATING TO THE TREASURY DEFICIT. IN FACT, IN ORDER TO RESPECT THESE COMMITMENTS MADE WITH THE IMF, THE MINISTER OF TREASURY IS EVALUATING IN THESE DAYS ALL THE POSSIBILITIES IN ORDER TO CUT THE REQUESTS OF THE INDIVIDUAL ADMINISTRATIONS MADE IN VIEW OF THE DRAFT OF THE BUDGET FORECAST FOR 1978 THAT MUST BE PRESENTED TOGETHER WITH THE FORECAST AND PLANNING REPORT BY THE END OF THIS MONTH. PRIME MINISTER ANDREOTTI IN HIS STATEMENT WHICH OPENED THE BARI FAIR ON SEPTEMBER 9 SAID, "THE FORECAST BUDGET FOR 1978 CANNOT NOT CORRESPOND TO THE RIGOROUS GROWTH LIMITS TO WHICH ALSO THE SIX PARTIES OF THE PROGRAM ACCORD) AND EXPLICITLY THE PARLIAMENT HAVE AGREED."

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5. RESPECTED ECONOMIST AND REPUBLICAN DEPUTY GIORGIO LA MALFA COMMENTED ON ARTICLE AT LENGTH IN /LA STAMPA/ ON SEPTEMBER 10 BUT WAS MORE CONCERNED THAT SUCH TALK, TAKEN WITH THE IMPROVEMENT ACTUALLY SHOWN IN INFLATION RATE AND THE BALANCE OF PAYMENTS, WOULD CREATE A CLIMATE IN WHICH THE OTHER COMMITMENTS (TO THE EC AND IMF) WOULD BECOME LESS IMPORTANT AND LESS EFFORT EXERTED TO MEET THEM, RESULTING IN THE LOSS OF INTERNATIONAL CREDIBILITY.

6. PERHAPS THE SATURDAY EDITION OF /LA REPUBBLICA/ CARRIES THE MOST BALANCED COMMENTARY BY ASSUMING THAT (WITH RESPECT TO THE EXPENDITURE FORECAST FOR 1978) THE GOVERNMENT HAS "SIMPLY EXPLAINED TO THE AUTHORITIES OF THE FUND THE MODALITY WITH WHICH THEY INTEND TO CALCULATE THE 7 PERCENT INCREASE IN THE APPROPRIATION BUDGET OF THE STATE FOR 1978." THE ARTICLE POINTS OUT THAT "ONLY IN FEBRUARY OF 1978, WHEN THERE WILL BE THE FIRST MEETING WITH THE FUND OFFICIALS FOR THE PERIODIC REVIEW OF THE AGREEMENT, WILL IT BE POSSIBLE TO REOPEN THE QUESTION OF AN EVENTUAL REVISION OF THE CLAUSES CONTAINED IN THE LETTER OF INTENT."

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7. /COMMENT/. /LA STAMPA/, WHICH WAS ALSO RESPONSIBLE FOR

MISQUOTED LEAK OF IMF MANAGING DIRECTOR WITTEVEEN LETTER TO
TREASMIN STAMMATI IN AUGUST (ROME 17792) HAS TRIED TO STIR UP
ANOTHER TEMPEST BUT WITHOUT MUCH LUCK. THE HEAVY COMMENTARY
BY THE WEEKEND PRESS DOES SERVE TO UNDERLINE THE ANTICIPATION
WITH WHICH ALL OBSERVERS ARE AWAITING THE GOVERNMENT'S OFFICIAL
EVALUATION OF THE ECONOMIC PROSPECTS FOR 1977 AND 1978 TOGETHER
WITH THE FIRST BUDGET FORECAST TO BE PRESENTED UNDER THE NEW
POLICY OF DECELERATING PUBLIC SPENDING.GARDNER

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Message Attributes

Automatic Decaptioning: X
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Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BUDGETS, NEGOTIATIONS
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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
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Enclosure: n/a
Executive Order: N/A
Errors: N/A
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Review Release Date: n/a
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Review Transfer Date:
Review Withdrawn Fields: n/a
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Secure: OPEN
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Subject: TURIN DAILY ASSERTS SOME CEILINGS OF LETTER OF INTENT BEING RENEGOTIATED
TAGS: EFIN, IT
To: STATE TRSY
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